

Supplier Performance Programs

By Michael Oldani, Manager of Strategic Sourcing for DSSI LLC

Introduction

Rigorous measurement and tracking of supplier performance is the key to managing a successful relationship. Suppliers can use this information to improve performance while buyers can identify top performers and eliminate suppliers who do not meet standards.

Many e-procurement or ERP systems can automatically track supplier performance trends. This trend data can be used as part of a quarterly supplier review process and allows the supplier's executive management to understand performance and take corrective action.

Supplier Performance Measures

Most of us are aware of the standard supplier performance measurements but beyond the traditional measurements, it is also very important to consider the factors that have a high correlation with end-user satisfaction. Supplier metrics to consider include:

RFQ's:

- RFQ performance (by type including regular, spot buys, various launch and commodity types)
- On time vs. late

Financial settlement:

- Number of lines invoiced
- Invoiced with appropriate tracking information
- Returns

Order confirmation:

- number and % of orders confirmed
- number and % of orders confirmed with an issue

Shipping Performance:

- Average number of days to ship
- Deviation from shipping expectation
- % shipped on time
- % shipped on time with a revised delivery date
- Number of items with date changes

Catalog Content:

- Number of active items
- Number of items with minimums
- Number of items with buy increments
- Number of items with images
- Average ships within time
- Number of items with 0% cost savings

Cost Savings:

- Actual cost savings
- % of zero cost savings items purchased
- Total soft cost savings submitted by supplier

Segmenting the Supply Base

A mature supplier performance program can benefit from designating suppliers into categories for the purpose of future sourcing considerations and management. Following is one example of categorizing suppliers and how it is helpful to the buyers and suppliers:

Premier Suppliers:

- Recognized and measured to have exceeded all metrics that comprise the standard performance expectations.
- Have a significant role in supporting spend and associated processes.
- Transact a high number of purchase orders with large annual sales.

Reason supplier strive to achieve: These suppliers are considered first for new or expanded business assuming geographic and/or product constraints are satisfied

Preferred Suppliers:

- Recognized and measured to have achieved nearly all of the metrics that comprise the standard performance expectations.
- Have a key role in supporting spend and associated processes.
- Typically, transact a high number of purchase orders with large annual sales.
- Have an in-depth understanding of your business and strive to perform within required guidelines.

Reason suppliers strive to achieve: Highest level of sourcing priority after Premier suppliers.

Primary Suppliers:

- Suppliers that are considered good suppliers most of the time but do not consistently achieve standard performance expectations.
- Suppliers transacted with on a regular basis to fill product line or geographic gaps of the Premier and Preferred suppliers

Reason suppliers strive to achieve: Opportunity to gain significant business at specific locations.

General Suppliers:

- These are typically local suppliers that are used to fill geographic and/or product gaps.
- Volumes may be as low as a few transactions per year.
- Usually provide specified materials that are not available from one of the other supplier types. (e.g. OEM Spare Parts)

The benefits of having defined supplier types include:

- Allows for the directing of spend toward the highest performing suppliers.
- Allows the transactional purchasing group to immediately know which suppliers to drive new business to for new products and spot buys.
- Suppliers position themselves to have first opportunity at any incremental business keeping the sales cost to a minimum.
- There is a reliable presence with trusted, capable suppliers.

Summary

There are numerous benefits to having defined supplier performance metrics readily available to all parties, including:

- Improved confidence of all parties leading to better working relationships, improved program compliance, and improved savings;
- Demystified supplier expectations improving supplier communication and performance;
- Shared objectives and sense that we are all working together for success;
- Improved sourcing decisions with reduced emotional response; and,
- Higher customer satisfaction and maximized processing efficiency.

If you are looking to implement a supplier performance program, start with the basics and as the program becomes more mature, segmenting the supply base for future sourcing considerations can add real value.

About Michael Oldani



Oldani holds a BS from Central Michigan University and an MBA from Eastern Michigan University. He is a career purchasing professional who has held several positions including buyer, senior subcontracts negotiator, commodity specialist, launch manager and purchasing controller. Currently, Oldani works for DSSI LLC as Manager of Strategic Sourcing.